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Second country cooperation framework for Hungary (2001-2004)

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Introduction

1. The second country cooperation framework (CCF) for Hungary for 2001-2004 has been prepared in consultation with the Government, civil society, the private sector and donors. This process served to review the first CCF (1997-1999, with an extension to 2000) and to formulate the orientation of the second CCF. Current issues and approaches were identified using the national human development reports (NHDRs), the country review, other programme and government documents, discussions with various officials at the national level and with non-governmental organizations (NGOs) and other potential counterparts.

I. Development situation from a sustainable human development perspective

2. Hungary has made great progress in its transition from a centrally planned to a market economy. This is visible through its continuing and expected GDP growth, estimated at about 5 per cent annually, and through the progress it has made in governance and other social and economic structural reforms which advances its European Union (EU) integration process. However, the growing the economy has not yet translated into a widespread improvement in the standard of living.

3. The country has evolved through several stages of reform marked by a recession between 1990 and 1993, during which gross domestic product (GDP) decreased by one fifth. This was followed by various austerity measures between 1994 and 1996 that involved, among other components, reductions in entitlement disbursements. A new Government, elected in mid-1998, has stressed the development of family-oriented policies. The reason for this approach, as shown by statistics, analysis and the general attitude of the population, is that the gains from transition have not been equitable in terms of employment and income distribution, which has resulted in a widening poverty gap between rich and poor and in regional differences. Furthermore, the population growth rate has declined. There is, at the same time, a greying of the population, even with an unusually high mortality rate in comparison to similar countries. These factors have various critical short- and medium-term social and economic consequences.

4. The Government recognizes and is currently addressing these issues. Various measures have been taken that involve: (a) transferring family and social-oriented reform efforts to a new Ministry of Social and Family Affairs; (b) taking various measures to create targeted entitlements via transfers, tax concessions and education benefits; and (c) drafting a family policy strategy. Furthermore, various measures have been taken to deal with regional differences by addressing decentralization, initiating infrastructure programmes and implementing other development programmes. As part of its European Union integration efforts, the Government is currently preparing its first national employment action plan that is to be completed in the first half of 2000.

5. The national human development report (NHDR) has been catalytic in assisting the Government and others in identifying and analysing human development trends. The analysis shows that personal income levels have risen, especially when compared to the first half of the 1990s. However, income inequalities widened in the late 1990s. For instance, the difference between the top and bottom income segments widened from 7.5 in 1995 to 9.2 in 1997. This and other evidence indicate that the number of people living under the poverty line has increased. Of them, 42 per cent experience poverty in two ways: housing poverty and consumption poverty. It is also estimated that 3 per cent of households (4 to 5 per cent of the population) suffer extreme poverty. Social benefits make up more than half of the per capita annual income of these households. These statistics clearly indicate continuing labour-market problems and other disadvantages.

6. The same trend holds true for employment income measurements. Overall, there was a 9 per cent fall in the real value of net earnings between 1994 and 1998. Within this decrease, higher wage earners experienced a smaller decrease in net earnings. A further illustration is that the bottom segment of wage earners only earned 3.3 per cent of aggregate earnings in 1998, as compared to 3.8 per cent in 1992.

7. Traditionally, there have been regional differences in socio-economic performance throughout the country. These differences have become more pronounced during the transition period. Between 1980 and 1990, the difference between the highest and

lowest rates of economic activity essentially did not change. Since 1990, it has more than doubled from 5 to over 10 per cent. The employment rates of cities (with over 20,000 inhabitants) and county seats are relatively high, while the rates in smaller towns and villages are below the national average.

8. The human development index (HDI) calculation shows disparities in regional development and increasing polarization. The most affected areas are mainly in northern Hungary, the southern Transdanubia region and the eastern county of Szabolcs-Szatmar-Bereg.

II. Results and lessons of past cooperation

9. The first CCF concentrated on regional development, environmentally friendly technological development, analysis and implications of the parallel economy, and management of development cooperation. These efforts were undertaken to further knowledge and to enhance policy responses to the costs of transition and to complement the country's efforts towards European Union integration.

10. UNDP has provided assistance in very discrete areas. The Government views this assistance as crucial and catalytic. Its impact is considered much greater than the amounts invested. Given its past success and positive impacts, the Government has showed interest in continuing its efforts in the same areas for the proposed programming period.

11. In the social-policy sector, a project to strengthen social cohesion was also designed to enhance the professional skills and capabilities of newly established health funds and voluntary mutual-benefit organizations. As a result, the project assisted in a public information campaign and in strengthening 26 health funds with over 30,000 participants. In the area of regional development, a study is being prepared, with the International Labour Organization (ILO) as executing agency, to identify the reasons behind the success and failure of local and regional policies with regard to enterprise promotion, employment creation and sustainable human development. This analysis will be used to highlight policy lessons for future capacity-building exercises for local and national organizations.

12. In the environment sector, an energy/environment survey was conducted to provide essential information for the development of long-term policies and approaches for the environment as well as for related socio-economic development. The survey was also used as an input for the proposed UNDP/Global Environment Facility (GEF) energy-efficiency project. The survey was followed by a preparatory assistance project to help the Government in preparing the proposed energy-efficiency project document. These preparatory steps have been crucial in concentrating government efforts to streamline and to focus more substantively on environmental issues by furthering the establishment of an Energy Efficiency Agency. The agency, in combining the talents of several disparate government bodies, will allow for more focus and responsiveness to related energy-efficiency issues and to streamline programmes.

13. The third major programme area, capacity-building for development cooperation, has concentrated on training and on raising awareness within the Government of the country's transition from being a donor recipient to a donor provider. These efforts have led directly to the next proposed phase, which involves the preparation of a national conceptual framework for development cooperation and capacity- and institution-building. This is especially important from a UNDP perspective, because Hungary is one of the first in the region to take such a step. Its success can greatly contribute to similar transition efforts in other countries in the region.

III. Objectives, programme areas and expected results

14. The main priorities of the Government are to further assist in responding to the disparities resulting from the continuing transition process and to advance European Union integration efforts. Considering the flexibility and strategic character of UNDP assistance, the proposed programming period will continue in the same thematic and issue areas so that there will be sufficient follow-up to previous efforts and a base to build upon for future cooperation. This will not only assist Hungary in its transition process, but also provide knowledge, experience and models that can be extrapolated for countries in the region.

15. The proposed programme will concentrate on continuing governance-oriented efforts and socio-economic policy support. The programme is divided into three main thematic areas: (a) impacts of and responses to social and economic transition; (b) environment with a focus on energy efficiency; and (c) strengthening capacities for development cooperation.

A. Impacts of and responses to social and economic transition

16. As transition progresses, several impacts are surfacing which have caught the attention of the Government and the public. The NHDR has been instrumental in identifying these issues and contributing to the discussions, as have other UNDP-sponsored research and analysis, which remain crucial to Hungary as the Government grapples with policy and programme responses. These research and analysis efforts also have impacts and can contribute to the processes undertaken by other countries in Central and Eastern Europe and the Commonwealth of Independent States (CIS). As other countries progress through transition, they may confront the same issues.

17. Such research and analysis should continue with the NHDR. These efforts, however, must concentrate more on using data and analysis to assist the government not only in identifying issues but also in formulating policy and other responses.

18. To address longevity and other social-capital issues, the Central Statistics Office and the Hungarian Federation of Mutual Funds have proposed a joint effort. The research will identify the parameters of the country's declining health situation and will design a community-based intervention strategy to increase social capital in terms of improved health, life expectancy and economic prosperity. To contribute to this effort, a detailed analysis of mortality differentials will also be undertaken, which will contribute directly to efforts to address disparities and population trends.

19. Research on the ability of families to cope with transition has been limited. A major priority of the Government is to allay the impacts of transition on family life. The Central Statistics Office has proposed to research various aspects of family activity and behaviour and to use this information to support issue advocacy and to assist in determining policy responses in order to provide options for family stability and improvements in the standard of living.

20. Past UNDP-sponsored research, which addressed regional and income disparities and other donor assistance, has pointed out the explicit need to improve the approach to education for the Roma population. Part of this work has been done by the Autonomia Foundation through an education programme in Roma-populated regions. It is proposed that UNDP assist the Foundation in preparing a methodology for the Weekend College and Parent's School Programme in order to improve educational approaches for both parents and students.

21. The expected results of the above-mentioned efforts are: (a) sufficient data and analysis in order to identify at least four substantive impacts of transition on human development; (b) adequate advocacy so that policy and programme responses appear on the agenda of the Government or are addressed by other means; and (c) the identification of at least three major policy inputs or accepted approaches to resolve these impacts.

B. Environment with a focus on energy efficiency

22. Through past project efforts UNDP has helped the Government to streamline and to focus its environmental-management efforts. This culminated in the preparatory assistance project, which helped in the design of the proposed UNDP and GEF energy-efficiency project, entitled the Hungary Public-Sector Energy-Efficiency Programme.

23. The project focuses on the further streamlining of government units involved in energy efficiency into the Energy Efficiency Agency and on concentrating government policy and intervention in key areas. Governance and capacity-building, therefore, will be addressed in the short and medium term. With regard to advocacy, policy formulation and implementation, the project will directly assist in the mitigation of greenhouse gases by creating a sustained market for energy-efficiency services and will promote the implementation of energy-efficiency projects in municipalities, hospitals and other public institutions. It is estimated that the project will help in generating 60 to 90 energy-efficiency projects.

24. Measures of success should include the: (a) establishment and sustainable functioning of the

Energy Efficiency Agency; (b) monitoring and measurement of energy-efficiency projects, with at least 75 projects initiated over the project's lifetime (five years); and (c) the clear reduction of carbon emissions.

25. In addition to the direct benefits to Hungary, the progress of the project should also be monitored with regard to its possible use in other similar energy-efficiency efforts in Central and Eastern Europe and the CIS.

26. UNDP has also assisted the Hungarian Meteorological Service in preparing the Background Air-Pollution Monitoring Network and in supplying the necessary equipment. The next, and final, proposed step is to provide training to technicians in the use of the equipment for more detailed purposes and to attend bilateral and multilateral intercalibration sessions and evaluation workshops so that quality-assurance and quality-control requirements are met. Through past and current efforts, the Service has gained sufficient experience and knowledge. It is in fact one of the most advanced in the region. The Service will work with other Central and Eastern European countries to share its experiences, approaches and knowledge.

C. Strengthening capacities for development cooperation

27. The Ministry of Foreign Affairs has received past project assistance to advance government efforts to become a donor country. A development cooperation project is being used to prepare a baseline survey on existing national capacities for development cooperation and for the creation of a concept paper outlining the main features of the country's development-assistance interests and requisite institutional and human-resource capacities.

28. The proposed effort is to bring development assistance beyond the concept phase by: (a) assisting the Ministry in conducting advocacy at the senior government level and with the public; (b) preparing a development-assistance approach and programme; and (c) establishing the necessary institutional and human-resource capacities to conduct a programme.

29. The main output of the effort will be: (a) a development-assistance organization within government structures; (b) trained management and staff resources to conduct a development-assistance programme; and (c) a donor-assistance programme with the necessary methodologies and information needed to conduct the programme.

30. In addition to the above three thematic areas, efforts should be coordinated, as possible, with the UNDP regional programme based at the Regional Service Centre in Bratislava. The global uniqueness of the above efforts can benefit the efforts of the regional programme by contributing information, approaches, methodologies and solutions to assist other countries in Central and Eastern Europe and in the CIS as a whole.

IV. Management arrangements

A. Execution and implementation

31. National execution will continue to be the normal execution modality. National project managers and financial officers will be provided with appropriate training in accounting and reporting to ensure that accounting and auditing requirements are met.

32. Projects will be backstopped by the UNDP Liaison Office based in Budapest. Support will be provided by the Regional Support Centre of the Regional Bureau for Europe and the CIS based in Bratislava. Close consultation will take place between UNDP offices and the Department of International Organizations of the Ministry of Foreign Affairs, the main UNDP focal point. To the extent possible, other United Nations organizations, programmes and modalities will be used, such as the United Nations Volunteers programme, Transfer of Knowledge Through Expatriate Nationals, United Nations Short-Term Advisory Services and technical cooperation among developing countries.

B. Monitoring, review and reporting

33. Projects will be reviewed periodically, according to project work plans, to ensure that targets and benchmarks are achieved and are fully results-oriented. Project managers will submit work plans, and progress and other reports, according to UNDP requirements. This is to include annual progress reports, performance and evaluation reports, technical reports as required, terminal reports and the necessary tripartite review meetings.

C. Resource mobilization

34. In view of the limited UNDP resources available, particular attention will be given to continuing efforts to mobilize additional resources by attracting cost-sharing contributions or trust funds. The Government will provide its cost-sharing contribution. The GEF will support a major portion of the funding of the energy-efficiency project. Most of the proposed projects complement European Union integration as well as other bilateral and ongoing government efforts.

Annex

Resource mobilization target table for Hungary (2001-2004)

Source	Amount (In thousands of United States dollars)	Comments
UNDP regular resources		
Estimated carry-over	407	Includes AOS.
TRAC 1.1.1	501	Assigned immediately to country.
TRAC 1.1.2	0 to 66 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
SPPD/STS	252	
Subtotal	**1 160***	
UNDP other resources		
Government cost-sharing	-	
Sustainable development funds	4 000	GEF
Third-party cost-sharing	-	
Funds, trust funds and other	-	
Subtotal	**4 000**	
Grand total	**5 160***	

* Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: AOS = administrative and operational services; GEF = Global Environment Facility; SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignment from the core.